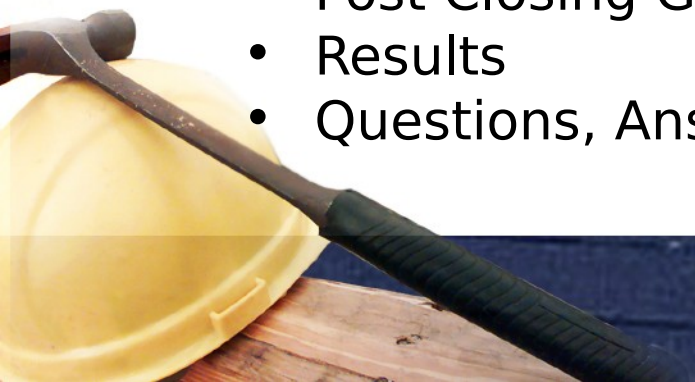
Military Housing Privatization Initiative (MHPI) - 101

September 2006

MHPI 101 Presentation Will Cover…

- Program Background and Legislative Mandate
- Understanding the MHPI Objectives
- Housing Privatization Process Overview
- Most Used Legislative Authorities
- Federal Budgetary Scoring and MHPI
- Reason for Government Contribution
- Why Service Members Get Access to More Housing Using Privatization
- Solicitation Development
- Proposal Evaluation Process
- Pre-Closing/Award Activities
- Post Closing Government Monitoring
- Results
- Questions, Answers, and Reference Materials



Program Background and Legislative Mandate

Program Background and Legislative Mandate

In the early 1990s, the United States Department of Defense (DoD) determined that the following public policy problems existed:

- Over 60 percent of DoD owned family housing (or approximately 180,000 units) was inadequate
- If this problem were addressed using Military Construction (MILCON), the costs were projected to be $20B and, at expected levels of funding, would take 30 years to complete
- Housing was not a core competency of the military services (or DoD)
- Private Sector had the expertise to develop and manage housing and the ability to tap into the capital markets given rental income streams

Program Background and Legislative Mandate

Public policy solution

- The 1996 National Defense Authorization Act gave life
  to the Military Housing Privatization Initiative (MHPI)
- The MHPI authorities were extended twice and finally made permanent by the 2005 National Defense Authorization Act
- The MHPI consists of tools (legislative authorities) that facilitate real estate transactions between the government and private developers and property managers

Program Background and Legislative Mandate

The MHPI legislation allows the Services to offer one or more of the following tools in their military housing privatization deals

- Direct loans
- Guarantees: loan, rent, and occupancy
- Investments in non-governmental entities
- Limited partnerships
- Sell, contribute, convey, or lease DoD-owned property
- Differential Lease Payments
- Assignment of service members to the privatized housing units
- Allotments to pay rent
- Build to local standards
- Ancillary support facilities

See MHPI Authorities at http://www.acq.osd.mil/housing/legislation.htm

Understanding the MHPI Objectives

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MACRO ISSUES

SOLUTIONS

Current State

- Slow government process
- Old housing
- Inadequate resources
- Insufficient capital

Potential Solutions

- Privatize real estate
- Assets and services
- Outsource services
- Dispose of real estate assets

Future State

- Private sector operations
- Revitalized housing
- Leveraged funds with private resources
- Reduced housing deficit

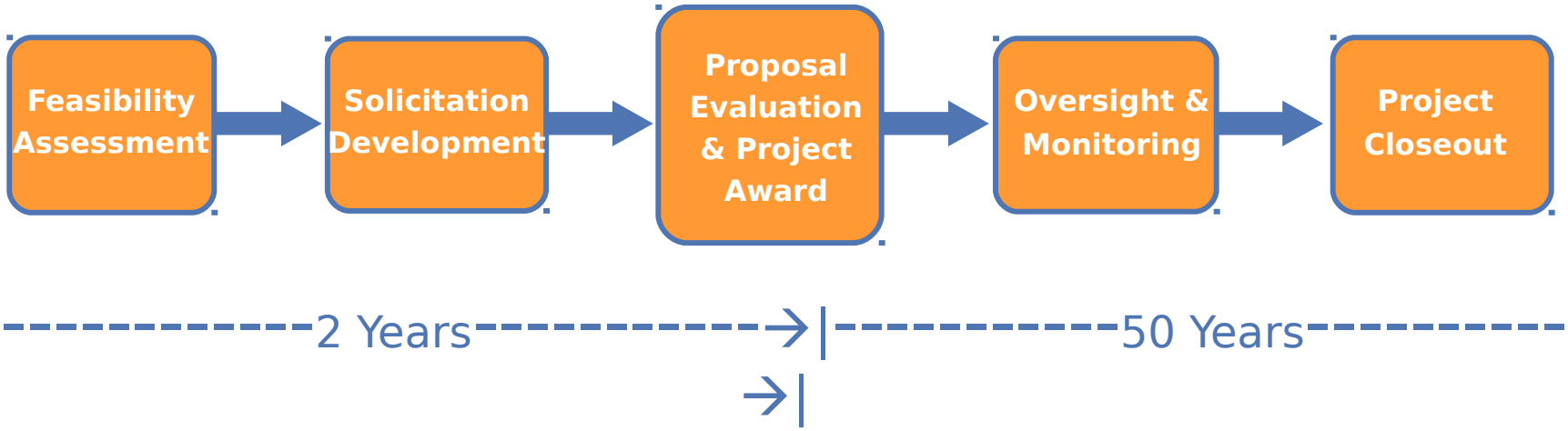
Military Housing Privatization Initiative

Site* Nomination → Feasibility Assessment → RFQ/RFP Development → Proposal Evaluation → Execute Deal & Convey Assets → Post Award & Monitoring

*Local, Regional, National

Service Housing Privatization Process

Service Housing Privatization Process



The Military Services use a process similar to this illustration to plan, execute, and monitor housing privatize deals. Time frame shown is meant to indicate a representative order of magnitude.

Most Used Legislative Authorities

Most Used Legislative Authorities

The MHPI Authorities can generally be categorized as three types of tools:

1) Real Estate Tools
   - Conveyance and/or Lease
   - Build to Local Standards
2) Investment Tools
   - Acquisition of Limited Partnership Interest
3) Financial Tools
   - Direct Loans
   - Loan Guarantees
   - Differential Lease Payment

Most Used Legislative Authorities

1) Real Estate Tools - Conveyance or Lease Property

DoD may convey or lease property or facilities to parties in the private sector who will use that property to provide suitable housing for service members

Present Application

Contribution of Government Assets

- Ground lease of Government owned land
- Conveyance of existing improvements
- Reflects market standards

Most Used Legislative Authorities

1) Real Estate Tools – Build to Local Standards

DoD may allow owners of privatized housing to build to state and local standards and codes, rather than require the owners to build to traditional MILCON standards

Present Application

- Reduces overall development costs
- Reduces overall development time
- Reflects market standards

Most Used Legislative Authorities

2) Finance Tools - Direct Loans

DoD may loan money for the acquisition or construction
of housing used for service members

Present Application

- Supports development and facilitates private financing.
- Covers development gaps.

Most Used Legislative Authorities

2) Finance Tools - Loan Guarantees

DoD may guarantee loans made to private sector parties if the proceeds of the loans are used to acquire or construct housing units for service members

Present Application

- Supports development and facilitate private financing
- Current loan guarantee product is a “limited guarantee,” which protects lenders from risk of base closure, downsizing and deployment. Does not cover economic or market risk
- Limited use

Most Used Legislative Authorities

2) Finance Tools – Differential Lease Payment

DoD may provide a limited time rental subsidy directly to owners of privatized housing to assist in ensuring project financial stability

Present Application

- Useful tool when occupancy, and therefore income, is low
- Limited use

Most Used Legislative Authorities

3) Investment Tools

DoD may invest in non-governmental entities involved in the acquisition and/or construction of housing and support facilities

Present Application

- Government contribution through limited partnership

Federal Budgetary Scoring and MHPI

Federal Budgetary Scoring and MHPI

What is Scoring?

- How the Federal Government budgets for the cost of government activities
- Applies to all MHPI projects that expend cash, offer vs. offers credit, or financially obligate vs. obligates the government to future expenditures (e.g., equity contributions, direct and guaranteed loans, differential lease payments, etc.)

Federal Budgetary Scoring and MHPI

MHPI Scoring Examples

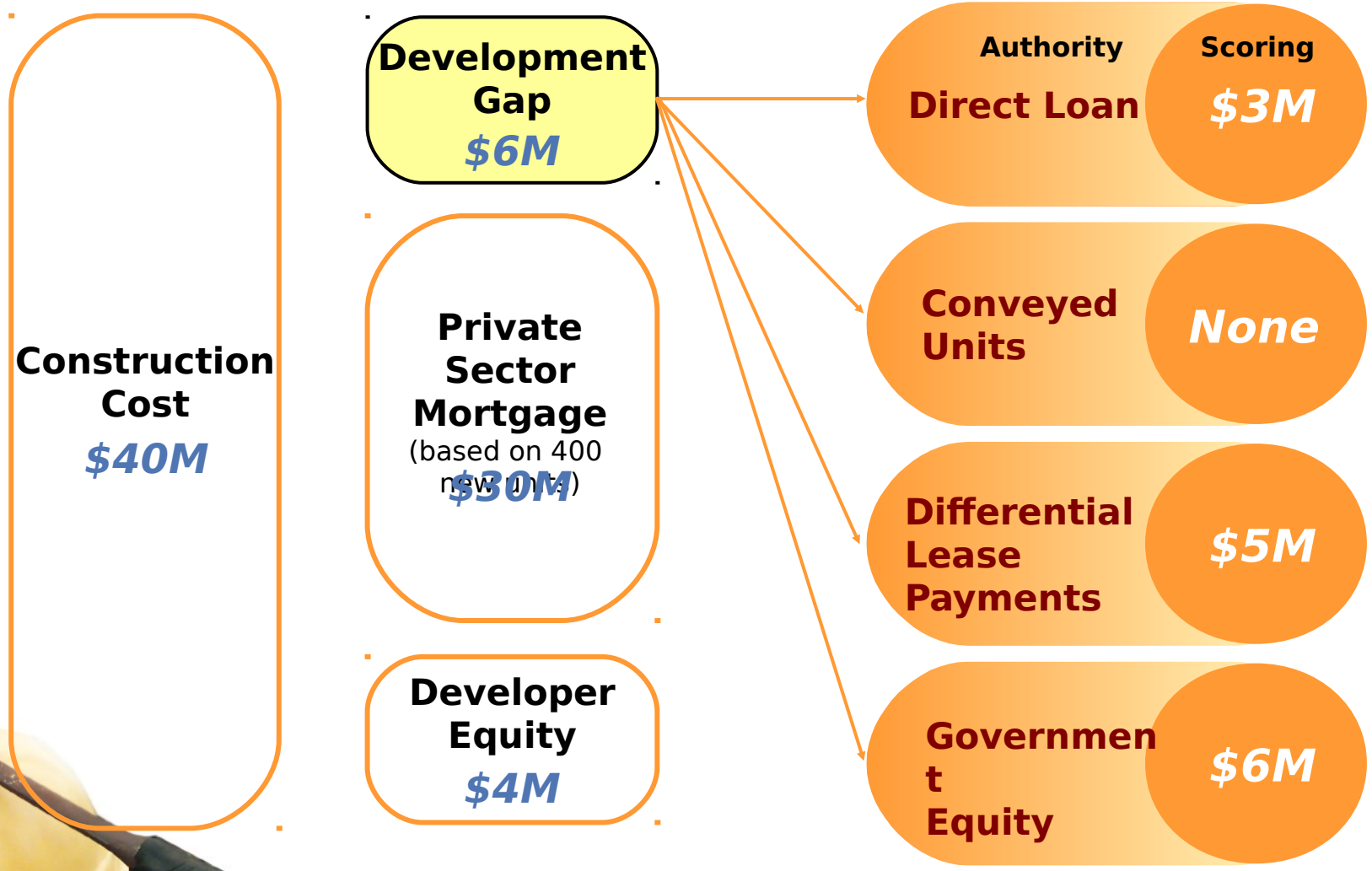
- Lease of property: No scoring impact
- Limited Partnership or Bond Purchase: Obligations recorded (scored) equal to total government cash investment.
- Direct Loans: Obligations recorded (scored) equal to estimated credit subsidy
- Differential Lease Payments: Obligations recorded (scored) equal to net present value of payment stream over term of contract or lease

Reason for Government Contribution

Reason for Government Contribution

Government contributions, through use of the MHPI Authorities, are made to insure that the desired scope is achieved, to close development gaps, and insure the feasibility of transactions from a financial cash flow perspective

Reason for Government Contribution



Reason for Government Contribution

MHPI Authority	Impact on Project Economics & Scoring
Transfer of Land/Units	Reduces total development cost by reducing land cost, providing a rental income stream • **No scoring impact**
Build to Local Standards	Reduces total development cost by reducing construction cost • **No scoring impact**
Limited Guarantee *(against base closure, downsizing, and deployment)*	Ensures availability of private financing and reduces interest rate • **Minimal scoring impact (3% - 7% of loan)**
Direct Loan	Brings additional financing through more favorable underwriting and below-market interest rates • **Moderate to high scoring impact depending on interest rate subsidy and deferral**
Differential Lease Payments	Increases gross income • **High scoring impact**
Government Equity	Fills development gap • **High scoring impact**

Why Service Members Get Access to More Housing Using Privatization

Why Service Members Get Access to More Housing Using Privatization

Real Estate Finance

- The income stream from service member rental payments supports access to private capital
  - Private debt (banks and other financial sources)
  - Developer Equity
- Government contributions help leverage private capital and support development
  - Land
  - Existing housing
  - $$: debt, equity, and/or subsidy

Why Service Members Get Access to More Housing Using Privatization

DoD Is able to leverage its appropriations against private capital, typically at ratios of 3+ to 1

Leverage

	MILCON	Privatization
Total Development Cost	$ 85.0M	$73.0M
Gov't Appropriation	$ 85.0M	$15.3M
Leverage Ratio	1:1	4.8:1

Through the MHPI, the service member has access to quality housing using private sector standards, at costs that are generally lower than MILCON

Solicitation Development

Solicitation Development

DoD utilizes a Non-FAR (Federal Acquisition Request) competitive Request for Proposal (RFP) or Request for Qualifications (RFQ) process.

FAR is not applicable as the DoD/Services are not acquiring homes, but are leasing land, conveying improvements, and/or entering into limited partnerships with private sector developers.

Proposal Evaluation Process

Proposal Evaluation Process

Proposals are evaluated based upon the development teams'*

- Experience and qualifications
- Financial capacity
- Design and construction concepts
- Past performance
- Proposed financial terms and conditions

* The factors are not in any particular order of importance

Pre-Closing/Award Activities

Pre-Closing/Award Activities

Congressional Notification

- Once a successful development team is selected, and the terms of the business agreement agreed to, the Service provides Congress a 30-day notice, prior to closing the deal.
- During the 30-day Congressional notification period, the Service and successful development team spend much of their time finalizing the details in order to close the deal.

Pre-Closing/Award Activities

During the pre-closing phase, the successful development team and Service usually:

- Identify conditions that must be met prior to deal closing
- Finalize the legal agreements
- Establish the escrow, reserve, lockbox and other requisite bank accounts
- Obtain required insurance coverage
- Participate in a partnering session with the installation (coordinate payment by allotment, town hall meetings, etc.)
- Establish a formal problem resolution organization
- Finalize the transition plan
- Keep potential military family tenants informed
- Distribute leases to service members for signature

Post Closing Government Monitoring

Post Closing Government Monitoring

Reasons to monitor include:

- Government equity investment in project
- Guaranteed a loan for the project
- Direct loan to the project
- Government land lease
- Members and families are tenants
- Housing reverts to Service at end of lease period
- Insure terms and conditions of the business agreements are met.

Post Closing Government Monitoring

Monitoring responsibilities include:

- Each Service is responsible for monitoring its own projects
- Division of responsibilities between base, region and headquarters defined by each Service
- OSD has oversight responsibility
- DoD reports to various government stakeholders

Post Closing Government Monitoring

Monitoring involves:

- Knowing rights and obligations of transaction documents
- Monitoring financial and operating parameters
  - Interpreting and trending various operating elements
  - Verifying distribution of funding per business agreements
  - Identify and address barriers to project goals/objectives
  - Working with developer to improve coordination/service
- Monitoring tenant survey results
- Continuing for term of the lease (50 yrs.)

Results

Naval Training Center San Diego, California

Naval Complex New Orleans, Louisiana

Wright-Patterson AFB. Ohio

MCB Quantico, Virginia

Naval Post Graduate School Monterey/Fort Ord, California

Questions, Answers and Reference Materials

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Visit the Department of Defense's Military Housing Privatization Homepage at

http://www.acq.osd.mil/housing

for information on housing projects, references and reporting, and miscellaneous information.

Questions, Answers and Reference Materials

Housing project information on our website includes:

- Awarded housing privatization projects
- Upcoming projects
- Project status
- Links to each Services' MHPI website

Questions, Answers and Reference Materials

References and reporting on our website includes:

- Reports by Military Services
- Congressional report requirements
- Military housing privatization references
- Congressional testimonies
- About military housing
- Privatization frequently asked questions (FAQ)
- Privatization 101 (this brief)

Questions, Answers and Reference Materials

Miscellaneous information on our website includes:

- What's new?
- Business Opportunities
- Legislative authorities
- Related sites
- Search

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